



Haverling

LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
17 September 2019**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Upminster &
Cranham Residents'
Group(1)**

**Labour Group
(1)**

John Crowder
(Chairman)
Osman Dervish
Jason Frost

Stephanie Nunn

Ron Ower

Keith Darvill

**North Haverling
Residents' Group(1)**

Martin Goode (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

Vacancy

**For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimistervictoria.freeman@onesource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

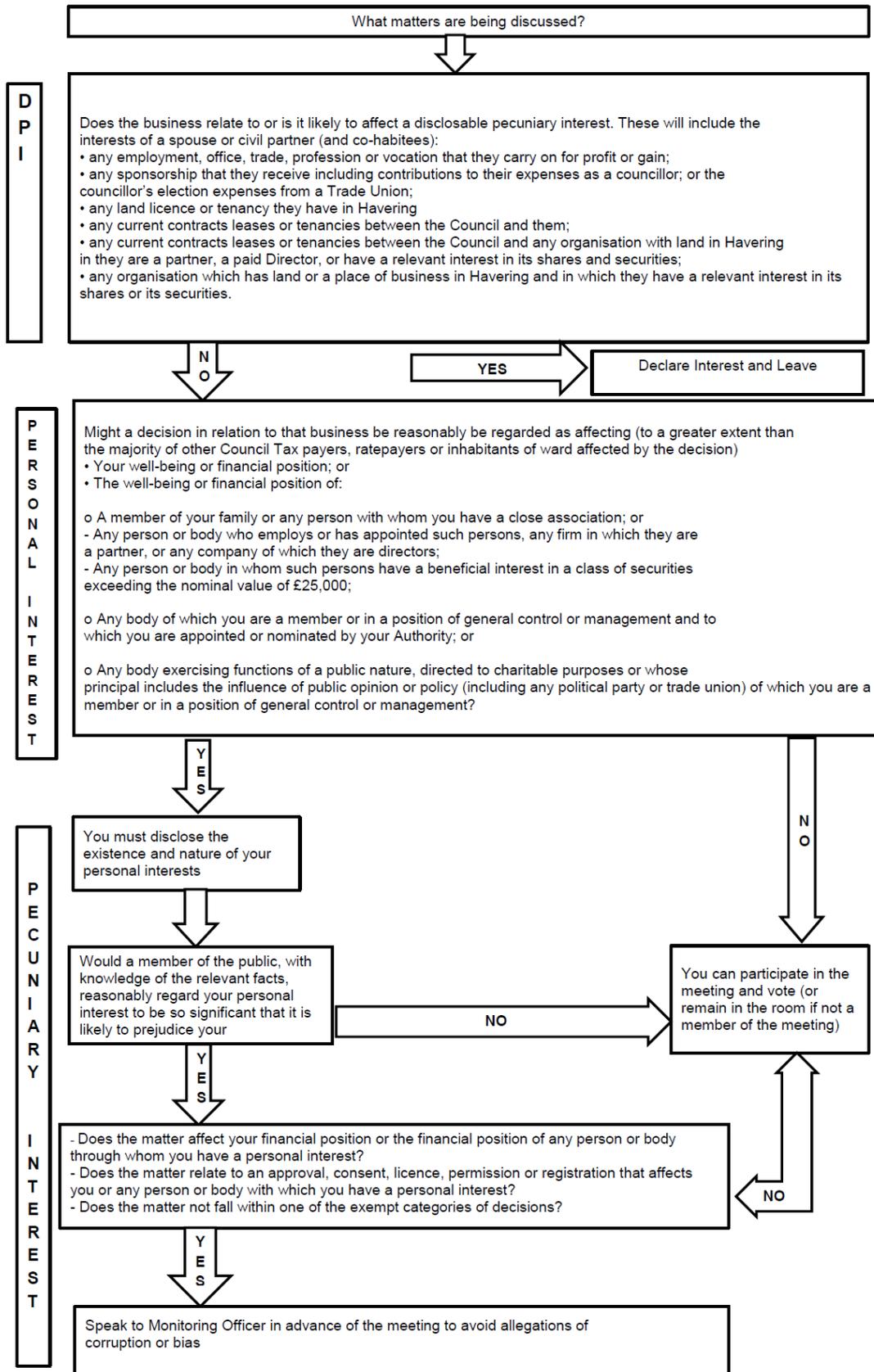
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive.

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the ordinary and extraordinary meetings held on 24 July 2019 (attached) and to authorise the Chairman to sign them.

5 MINUTES OF THE LOCAL PENSION BOARD (Pages 7 - 10)

To receive the minutes of the Local Pension Board (attached).

6 INTERNAL CASH MANAGEMENT POLICY REVIEW (Pages 11 - 24)

Report attached. Appendix not available to press or public.

7 GOOD GOVERNANCE IN THE LGPS (Pages 25 - 64)

Report attached.

8 INVESTMENT STRATEGY UPDATE - ALLOCATION TO MULTI ASSET CREDIT (Pages 65 - 84)

Report attached. Appendix not available to press or public.

9 LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2019 (Pages 85 - 102)

Report attached.

10 THE PENSIONS REGULATOR IN DEPTH ENGAGEMENT UPDATE (Pages 103 - 108)

Report attached

11 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

12 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2019 (Pages 109 - 186)

Report attached. Appendices C to F not available to Press or Public.

13 LONDON CIV - REMUNERATION POLICY REVIEW (Pages 187 - 230)

Report attached (not available to Press or Public).

Andrew Beesley
Head of Democratic Services

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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Training Room 2, Town Hall
24 July 2019 (6.00pm – 7.15pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Osman Dervish and Jason Frost
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
Upminster & Cranham Residents' Group	Ron Ower
North Havering Residents' Group	Martin Goode

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

107 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

There were no apologies for absence received.

108 DISCLOSURE OF INTERESTS

There were no disclosures of interest.

109 EXCLUSION OF THE PUBLIC

The Committee resolved to exclude the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

There were no members of the public or press present for the duration of the meeting.

110 **STRATEGIC RATIONALE FOR MANAGING CURRENCY RISK**

On the 24 July 2018, the Pensions Committee agreed that further considerations be given to the management of currency associated with the Real Asset mandates. Developments in the Investment Strategy since that meeting, had resulted in commitments made to three Real Asset funds and two Private Debt funds, thus adding further impetus to the need to consider the management of currency risk within the Fund's investments strategy.

The Committee received a presentation from Russel Investments.

RESOLVED: That the Committee

1. **Seek to manage the currency risk associated with investment in Real Assets and Private Debt.**
2. **Initially seek to mitigate US Dollar, Euro and Australian Dollar exposure only, but extend currency hedging arrangements to include any further material currency exposures that may arise within the mandates.**
3. **Mitigate 100% of selected overseas currency exposure, subject to gaining comfort on practical consideration.**
4. **Manage currency risk passively.**
5. **Appoint Russell Investments to implement a currency hedge for the Fund for an initial four year contract, subject to due diligence and formal advice on suitability.**
6. **Ensure future collateral requirements of a currency management programme are reviewed alongside the review of cashflow management processes.**
7. **Agreed to delegate the decision on the amount to be hedged on the 1 October 2019 to the S151 Officer in consultation with the Chair of the Pensions Committee.**

Chairman

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
24 July 2019 (7.15pm - 9.00 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Osman Dervish and Jason Frost
Residents' Group	Stephanie Nunn
Labour Group	Keith Darvill
Upminster & Cranham Residents' Group	Ron Ower
North Havering Residents' Group	Martin Goode

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

111 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

There were no apologies for absence.

112 DISCLOSURE OF INTERESTS

There were no disclosures of interest.

113 MINUTES OF THE MEETING

The minutes of the meeting held on the 19 March 2019 were agreed as a correct record and signed by the Chairman.

114 MINUTES OF THE LOCAL PENSION BOARD

The Committee received and noted the minutes of the meeting of the Local Pension Board held on the 5th June 2019.

115 EXCLUSION OF PRESS AND PUBLIC

The Committee resolved to exclude the public from the meeting during discussion of the following items on the grounds that if members of

the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

There were no members of the public or press present for the duration of the meeting.

116 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2019

The Committee received a report which provided an overview of the performance of the Havering Pension Fund investments for the quarter to 31 March 2019. The performance information was taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the quarter to 31 March September 2018 was 6.1% (or £41.21m to £733.62m). This quarter, the fund outperformed the combined tactical benchmark by 1.5% and underperformed against the strategic benchmark by -0.2%.

RESOLVED:

That the Committee:

- i) Noted the summary of the performance of the Pension Fund within the report.**
- ii) Considered Hymans performance monitoring report and presentation (Appendix A – Exempt).**
- iii) Received a presentation from the Royal London Asset Management the Fund's Bonds manager (Appendix B – Exempt).**
- iv) Considered the quarterly reports provided by each investment manager.**
- v) Noted the analysis of the cash balances (paragraph 3.2 refers).**
- vi) Considered the review of the current Quarterly Performance report.**
- vii) Considered the PIRC Local Authority Pensions Performance Analytics report (Appendix C – Exempt).**

117 PENSION FUND ANNUAL REPORT- YEAR ENDED 31 MARCH 2019

The Committee received the Pension Fund Annual Report 2018/19, prepared in accordance with Regulation 57 of the Local Government Pension Scheme (LGPS) Regulations 2013, which applied for reporting periods beginning 1 April 2014.

RESOLVED: That the Committee

- (i) Noted the progress of the Draft 2018/2019 Pension Fund Annual Report to date.**
- (ii) Agreed that the Pension Fund Annual Report would be published electronically once finalised.**
- (ii) Agreed that the Chair and the Statutory Section 151 officer be authorised to conclude and approve the final version of the Pension Fund Annual Report.**

118 PENSION FUND ACCOUNTS 2018/19

Members received a report which provided an extract of the Council's Statement of Accounts for the year to 31st March 2019 showing the unaudited accounts of the Havering Pension Fund as at that date.

RESOLVED:

That the Committee considered and noted the Havering Pension Fund unaudited Accounts as at 31st March 2019 and considered if there were any issues that needed to be brought to the attention of the Audit Committee.

119 POLICY FOR THE OVERPAYMENT OF PENSION FOLLOWING THE DEATH OF A PENSIONER OR DEPENDANT MEMBER

Members were advised that it was good practice to ensure the Council had a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member; and that this would ensure that any overpayments were treated in a fair and equitable manner and would prevent the administration team seeking individual write off approvals from the Head of Pensions and Treasury.

The policy had been approved by the Head of Pensions and Treasury under the OneSource Joint Committee Scheme of Delegation and became effective in March 2019 and would be reviewed annually.

RESOLVED:

That the Committee noted the approved Policy for the overpayment of pension following the death of a pensioner or dependant member.

120 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2018/19

The Committee received a report which sought to set out the work of the Committee during 2018/19 and the plan of work for the forthcoming three years and of which would form the basis of the Pension Fund Business Plan.

In order to meet the Council's democratic report clearance deadlines for the Full Council meeting on the 10 July 2019, the Business Plan/Report of the work of the Committee was agreed by the Chair of the Pensions Committee in advance of this meeting.

RESOLVED:

That the Committee noted the report.

Chairman

Public Document Pack Agenda Item 5

MINUTES OF THE MEETING OF THE LOCAL PENSION BOARD Council Chamber - Town Hall 20 August 2019 (9.00 - 10.40 am)

Present:

Anne Giles (Scheme Member Representative)

Mark Holder (Scheme Member Representative)

Denise Broom (Employer Representative)

There were no apologies for absence.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

7 DISCLOSURE OF INTEREST

There were no declarations of interest.

8 CHAIRMAN SELECTION AND TERMS OF REFERENCE

It was agreed that, for the coming year, the Chairmanship would rotate immediately after each meeting in the order Mark Holder – Denise Broom – Anne Giles – currently vacant second employer representative. Mark Holder therefore took the Chair for the remainder of the meeting. The Chairman would write to David Holmes thanking him for his previous work on the Board.

It was agreed that the first sentence of paragraph 6.1 of the Terms of Reference should be amended to read "the Board" shall have a formal quorum of 2, to consist of one Scheme Member and one Employer representative.

It was also agreed that the date the Terms of Reference were last revised should be included in paragraph 19.2.

Action: Victoria Freeman to amend Terms of Reference

9 MINUTES OF THE MEETING

The minutes of the meetings held on the 2 April 2019 and 5 June 2019 were agreed as a correct record and signed by the Chairman.

10 **MONTHLY LPP PERFORMANCE REPORT**

The Board noted that the Performance statistics had improved since the last LPP Performance report. Some case types dropped below 100% for being completed on time, however the Board agreed this was not significant. Members were advised that a case may be completed late but if each stage is completed on time, then the percentage will be higher and the case will be recorded as on time. The members agreed that although a case may not be late due to the late receipt of information requested from the service, the Board need to be informed of the reason for any delays. The members also noted that the salary recorded for each member is only an estimate of their salary as at the 31st March each year for use in producing annual benefit statements. The reason being that actual final salaries cannot be held on Oracle, limiting the resources to just an estimated figure.

The Board noted that there are no major concerns of underpayment. The Pensions team would be rolling out a new communication campaign to highlight payment protection and other pensions matters. The board agreed that line managers and scheme members need advice regarding the retirement process to be included as part of the communications campaign. . The Board discussed that there were approximately 800 cases 'on hold' at the point of the last report and this had been reduced to 531. These numbers needed to be kept as low as possible, including the 276 'on hold' cases classified as being relating to waiting on Council action in some way. The Board were advised that Havering do not currently benchmark their performance in these areas directly against other local authorities. Overall figures could be obtained from LPP.

The Board agreed that the next meeting would concentrate on scrutiny of the latest position with the 'on hold' cases and in particular those classified as being the responsibility of the Council in some way.

Action: Caroline Berry to produce detail of position with 'on hold' cases for discussion by the Board at next meeting.

11 **COMPLIANCE CHECKLIST**

The Board was advised that the timescales for the checklist have been added. It was agreed that the deadline for Board members to complete the Pension Regulator's training on the Code of Practice number 14 be extended to 31 October 2019.

Any outstanding Board member biographies could be sent to officers for inclusion for publishing on the website.

12 **PENSION REGULATOR REVIEW**

A formal report on the Havering pension fund would be brought to the Pensions Committee and to the Board in due course. There had been very

positive feedback back from the Regulator on Havering's scheme governance.

13 RISK REGISTER (STANDING ITEM)

The Board members were notified that for Risk 3 "Risk Failure of Investments to perform in-line with growth expectations", they would continue to monitor the LCIV. For Risk 6 "Risk of failure to on board or exit employers/members effectively", they had not yet received the internal audit report form LPP. For Risk 5 "Risk of inability to manage/govern the Pension Fund and associated services", it was stated that there is a cyber risk through ransomware and this was being managed by constant security updates. The Board also noted that One Oracle was being replaced by Oracle Cloud. This would be beneficial as it would remove the manual processes within oracle that relate to the pension fund and would make the process more automated. The cloud would be implemented by September 2020. The Board agreed that the summary layout of the report was better and easier to understand. It was noted that the register had been amended in order to include the ownership of risk at a lower level in the organisation.

14 WORKPLAN

Following a request from the Chairman of the Pensions Committee, it was agreed that an item be added to the agenda for the next meeting of the Board covering the monitoring of investments and in particular how many of the Council's funds were signed up to the code of transparency.

Action: Debbie Ford to arrange item on monitoring of investments for next meeting of Board.

The dates of future meetings would be circulated to Members by the clerk.

Action: Victoria Freeman to circulate dates of future meetings.

15 TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE

The response from the Council to the recent pension scheme consultation had been submitted but no feedback had been received as yet from the Government. It was noted that Havering had been selected for an in-depth review by the Pensions Regulator. It had been agreed that fund holders would be asked for a statement of their investment beliefs but little change in the Council's current investments was expected.

Delays with the external auditors had meant the Council's accounts were still unaudited and other Councils had also been affected by this issue, It was hoped that the accounts would be finalised by next meeting of the Audit Committee

Overpayments of less than £250 following the deaths of Members had been agreed could be automatically written off. The annual report of the Pension Fund had previously been agreed, and some discussion ensued as to if this report should be reported elsewhere.

Chairman

PENSIONS COMMITTEE

17 SEPTEMBER 2019

Subject Heading:

CASH MANAGEMENT POLICY REVIEW

SLT Lead:

JANE WEST

Report Author and contact details:

Debbie Ford
Pension Fund Manager
01708432569

Policy context:

Debbie.ford@onesource.co.uk s
To maintain a cash flow policy for internally managed pension fund cash so the Fund can meet its ongoing benefit payments

Financial summary:

To establish and manage minimum and maximum working cash balances

Exempt Information - In accordance with Schedule 12A of the Local Government Act 1972 paragraph 3, information contained within Appendix A of this report is exempt on the grounds of commercial confidentiality as they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The attached report, Appendix A presents a proposed Cash Management Policy, setting out the rules relating to the balance of cash held by the Fund based on short- term cash flow forecasts.

RECOMMENDATIONS

The Committee consider and agree the updated Cash Management Policy.
(Appendix A - EXEMPT)

REPORT DETAIL

1. **Background**

1. The internal Cash Management Policy was last reviewed and agreed by the Pensions Committee on the 15 December 2015.
2. As reported at the last Pensions Committee meeting on the 24 July 2019, the Cash Management Policy was to be reviewed in light of the committee agreeing to adopt a currency hedge for the Fund. The Fund will need access to cash to settle any currency contracts.
3. This policy has now been reviewed by the Fund's Investment Advisor (Hymans) using cash flow data provided by the Fund for the period 1 April 2016 to 31 March 2019.
4. Cash flow management is an essential part of the administration of the pension scheme as the Fund has to meet its ongoing benefit payments. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.
5. These benefit payments can be split between predictable payments, such as monthly pension payroll or unpredictable payments such as transfer value payments, retirement lump sums or death benefits.
6. The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments.
7. The rationale for the proposed policy is as set out in the attached **Appendix A** and a summary of the proposals are set out below:
 - A target working cash balance of £6 million to be set, permitted to vary between £3 million and £8 million.
 - This cash balance is sufficient to cover one month of predictable benefit outgo plus two months of unpredictable outgo.

- The cash balance will be replenished by monthly contributions (which slightly exceed predictable monthly outgo) and by income received from the UK property and private market investment arrangements.
- The working cash balance should be reviewed on a monthly basis immediately following receipt of contributions, and: - In the event that cash levels fall below the lower limit, assets will be disinvested from the most overweight allocation within the investment strategy so as to increase the working cash balance to £6 million.
- In the event that cash levels rise above the upper limit, cash will be invested in the most underweight allocation within the investment strategy so as to reduce the working cash balance to £6 million

IMPLICATIONS AND RISKS

Financial implications and risks:

Developing and maintaining a cash flow management policy will offer some degree of certainty that the Fund can meet its ongoing payments.

It is therefore desirable that;

- The cash balance maintained is not so large as to reduce the potential for future investment returns
- The cash balance maintained is not so small so as to create the risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice.
- Assets are realised in the most efficient manner possible.

The responsibility for rebalancing actions is to be officers – this should be in line with the delegation duties as set out in the Councils constitution and the oneSource Scheme of Delegation.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSIONS COMMITTEE

17 September 2019

Subject Heading:

GOOD GOVERNANCE IN THE LGPS

SLT Lead:

Jane West

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Governance policy

Financial summary:

No immediate cost implications

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Committee is advised of the Good Governance Report in the LGPS (Local Government Pension Scheme) produced by Hymans in July 2019 for the Scheme Advisory Board (SAB).

RECOMMENDATIONS

That the Committee:

1. Note the “*Good governance report in the LGPS*” produced by Hymans Robertson (Appendix A refers);

REPORT DETAIL

1. Background

1.1. Earlier this year, Hymans Robertson was appointed by SAB to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

1.2. Hymans engaged with all stakeholder groups and all fund types via an online survey, one to one conversations through interviews and seminars.

1.3. Four governance models were considered:

- Model 1 (improved practices) – Enhance existing arrangements by introducing guidance or amendments to existing arrangements
- Model 2 (Greater ring-fencing) – clearer ring-fencing from the host authority, including budgets, resourcing and pay policies
- Model 3 (Joint committee) – functions delegated to a joint committee
- Model 4 (Separate New Local Authority Body) – An alternative single legal entity.

1.4. In carrying out the survey, respondents were asked whether each of the models would have a negative or positive impact on each of the following criteria:

- Standards
- Consistency
- Representation
- Conflict management
- Clarity of Roles
- Responsibilities and cost

1.5. Conclusions

1.6. Survey responses indicated a preference for Model 2 (greater ring-fencing) followed by support for Model 1 (improved practices)

1.7. The report was presented to the SAB on **8 July 2019**. The report sets out the results of the survey, recognising strengths and weaknesses in all governance models and proposes that an outcomes-based approach would be the most effective method of improving governance, rather than mandating a single governance structure for all. This allows funds to continue doing what currently works well while still ensuring the highest governance standards across the scheme.

1.8. Summary of proposals

1. 'Outcomes-based' approach to LGPS governance with minimum standards rather than a prescribed governance structure

2. Critical features of the 'outcomes- based' model to include:

- a) Robust conflict management including clarity on roles and responsibilities for decision making
- b) Assurance on sufficiency of administration and other resources (quantity and competence) and appropriate budget
- c) Explanation of policy on employer and scheme member engagement and representation in governance
- d) Regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered

3. Enhanced training requirements for S151s and s101 committee members (requirements for s101 are currently best practice and should be on a par with Local Pension Board (LPB) members which is statutory)

4. Update relevant guidance and better sign-posting

1.9. Further details and recommended actions can be found in Appendix A page numbers 14 - 18.

1.10. The SAB has taken on Board the recommendations in the report and the team working on this project will be going back to SAB to the November meeting with an implementation plan.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no initial financial implications but the report contains suggested actions that may lead to the fund incurring costs in the future if certain actions are implemented. An example would be under proposal 2(b) where it is recommended that pension administration teams are adequately resourced and/or introduce separate pay and recruitment remuneration policies for pensions to attract and retain staff

Each administering authority may have to evidence that its own governance model displays the required attributes so there is a possibility that this may impact work pressures for staff. However, the Fund currently has in place all the statutory documents required to evidence good governance but may need to consider if some of the non statutory recommended policies need to be developed. Consideration will have to be given to any new requirements imposed due to any change in governance regulations and guidance.

Legal implications and risks:

The suggested actions include further consultation which may result in the introduction of new governance regulations which the Fund will have to adhere to.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None

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Good governance in the LGPS

July 2019



Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

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Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »



140 respondents to our online survey



one-to-one conversations



153 attendees at interviews and seminars



discussions with CIPFA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this value was outweighed by concern about weakening relationships with councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences. This process enabled us to identify

- i. Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS; and
- ii. Additional ideas for further strengthening governance within the current regulatory framework.

We have included these in the report.

Conclusions

- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

Key proposals

- 1 **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.
- 2 **Critical features of the 'outcomes-based' model** should include:
 - (a) robust conflict management including clarity on roles and responsibilities for decision-making;
 - (b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
 - (c) explanation of policy on employer and scheme member engagement and representation in governance; and
 - (d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
- 3 **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
- 4 **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction



Governance in the LGPS is evolving to accommodate developments in the last decade...

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

- 1. Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
- 2. Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
- 3. Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
- 4. Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.



Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.

- Three seminars were held with open invitations to collate feedback from larger group.

There are 87¹ funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

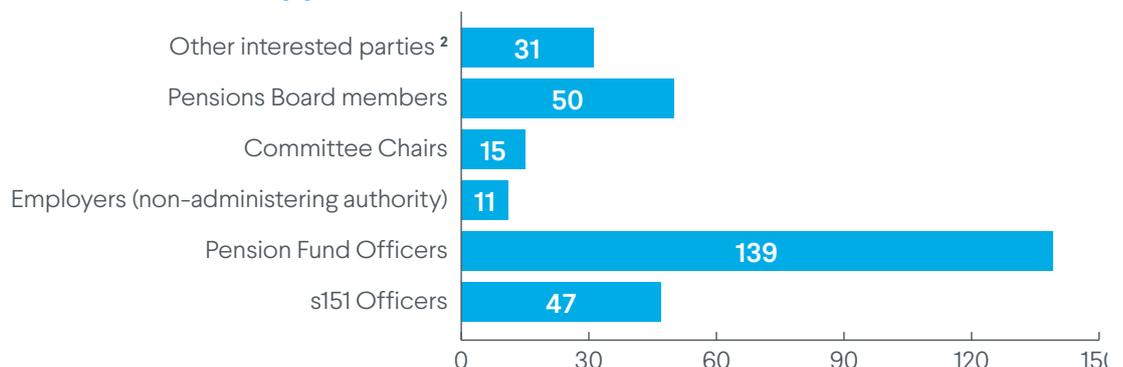
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

	Universe	Responses	Interaction through	
			Survey	Interview
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	87	76	140	153

Chart 1: Stakeholders we engaged



¹ Excluding admission body funds, passenger transport funds and the environment agency closed fund.

² Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **Model 1 (Improved practice)**
 Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- **Model 2 (Greater ringfencing)**
 Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
- **Model 3 (Joint committee)** Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
- **Model 4 (New Local Authority Body)**
 An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

1	Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2	Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
3	Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4	Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5	Representation	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6	Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.



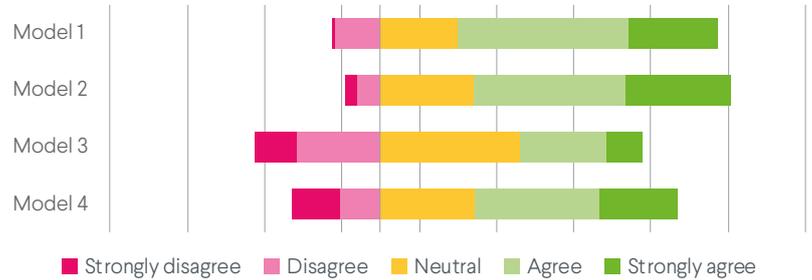
2. Survey results (continued)

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

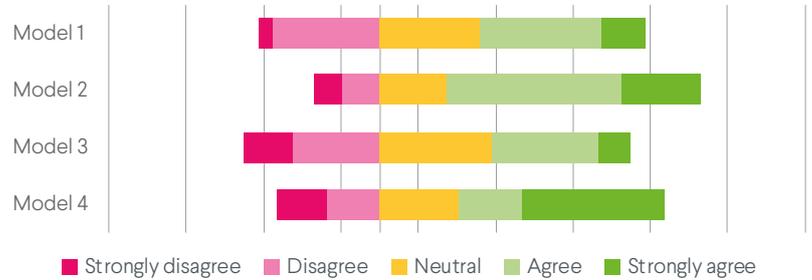
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

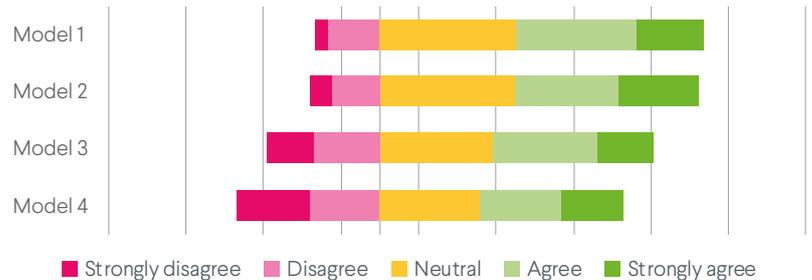
The model enables funds to meet the required standards



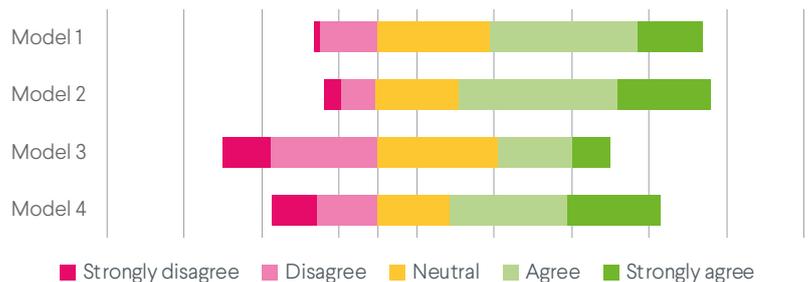
The model minimises conflicts between the pension function and the host local authority



The model allows for appropriate involvement in decision-making for key stakeholder

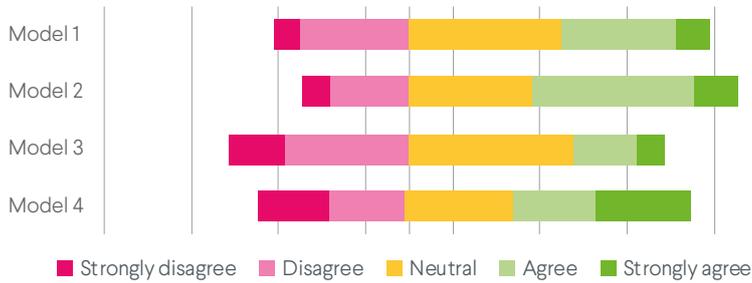


The model delivers clarity of accountability and responsibility for each relevant role

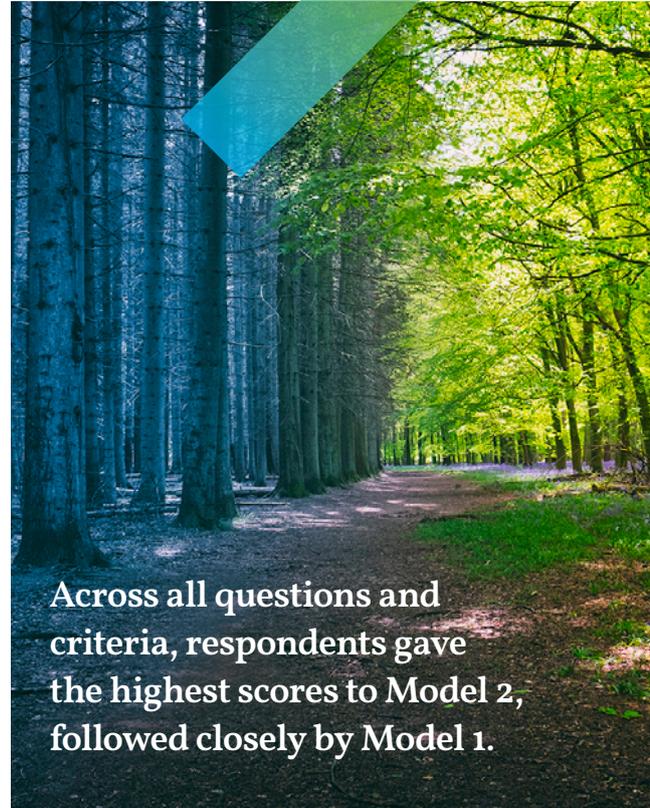


2. Survey results (continued)

The model minimises dependence on professionalism and relationships to deliver statutory responsibilities



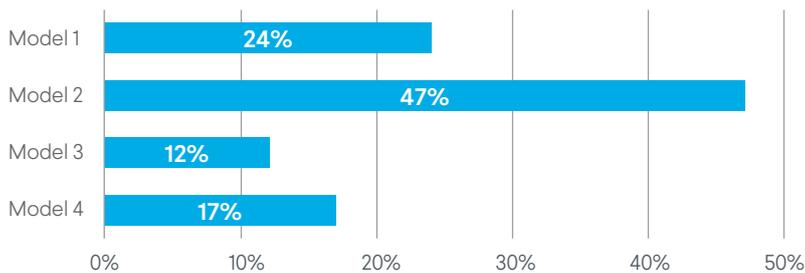
The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.

PLSA

Which structural governance model do you prefer from the four models discussed?



Additional survey data

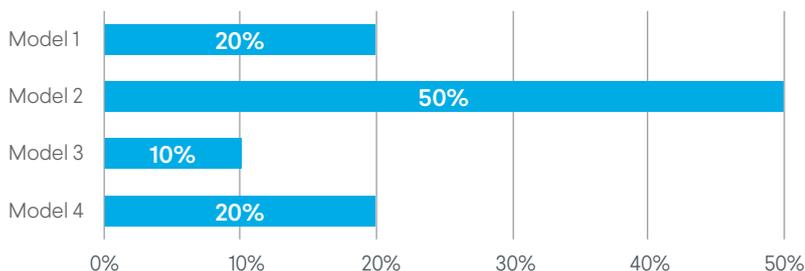
In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

Webinar

Which structural governance model do you prefer from the four models discussed?



4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union

Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.
2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.
3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.
4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.
5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

“It is a perversion that LPB members require a higher degree of training than elected members.”

Officer, LB

“[The] biggest issue is stability at elected member level. Too much turnover.”

Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

“Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc.”

Officer, CC

“[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't.”

Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.
2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?
3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.
4. Greater clarity around decision-making is a good idea: **"Some decision-making conventions are lost in the mists of time."**

Officer, CC



Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.
2. There was strong support for the professionalism of s151 officers and the role they play.
3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

"My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

Officer, CC

"Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."



Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.
2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

“No one in the council understands the difference between the ‘council’ function and the ‘pension’ function.”

Officer, LB

“The make-up of panel/committees is not working – too much political interference.”

LPB Chair

On conflicts:

“I don’t see abuses. The ability is there for there to be abuse but it doesn’t happen.”

Officer, CC

“LGPS is full of conflict, s101 committees are beholden to the council who are mainly focused on council tax-payers.”

TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

“[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

s151 CC

“[s151] role involves tensions, not conflicts. Tension can’t always be seen as a bad thing.”

Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority’s s151 was ‘kept informed’.

“It hadn’t occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good.”

Officer, LB

“Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF.”

LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

“[There should be] resourcing such that there is the quality and competence to deliver their statutory duties”

s151, CC

One s151 expressed **“disbelief that blanket hiring bans and pay policies affected the pensions section. s151’s should be flexible enough to understand how to ‘spend’ resources. If they need to pay differently for pensions to get the right experience/quality.”**

s151, CC

When it comes to budgeting and workplans

“...the s101 committee decides including requests for extra resource if required.”

Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees, although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

“Less than 50% of our members are in a union.”

s151, CC

“Representation is key – members must have a say”

TU

“Other employers reps and member reps should have voting rights [on the committee]. That’s right and should happen.”

Chair of Committee, CC

“We are warm towards the idea of an independent advisor/trustee who sits on committees.”

s151, CC

“We want to improve things for our members in terms of governance, transparency and representation.”

TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund’s governance arrangements.

“I welcome the involvement of the Pension Board it adds value, second opinion.”

Chair Committee, CC

One respondent believed that joint committee and local pension boards **“give scheme members and other employers a voice and avoids duplication.”**

s151, CC

“Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control.”

Chair of LPB

3. There were a range of practices in how funds engaged with employers:

“As s151 of a non-admin authority, I didn’t feel engaged in the pension fund, it was something that was dictated to me every few years.”

s151 speaking of their time in a non administering authority

“Employer liaison is tricky as your participating employers often don’t see it as a priority.”

s151, CC



5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	'Outcomes-based' approach to LGPS governance with minimum standards rather than a prescribed governance structure.
2	Critical features of the 'outcomes-based' model to include: <ol style="list-style-type: none"> Robust conflict management including clarity on roles and responsibilities for decision making. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. Explanation of policy on employer and scheme member engagement and representation in governance. Regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	Enhanced training requirements for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	Update relevant guidance and better sign-posting.

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	'Outcomes-based' approach to LGPS governance rather than a prescribed governance structure.	<p>We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure.</p> <p>Further, we do not believe it is appropriate to impose a 'one size fits all' approach.</p>	<ol style="list-style-type: none"> SAB should consult on: <ul style="list-style-type: none"> Desirable features and attributes of LGPS governance arrangements; The outcomes governance arrangements should be expected to deliver; and How each administering authority might evidence that its own governance model displays the required attributes. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	<p>Critical features of the ‘outcomes-based’ model to include:</p> <ol style="list-style-type: none"> Robust conflict management. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. Explanation of policy on employer and scheme member engagement and representation in governance. Regular independent review of governance. 	<p>The detailed specification of the desirable features and expected outcomes of an ‘outcomes-based’ model are beyond the scope of this project and should be determined in a second stage of work and through consultation.</p> <p>However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>
2a	<p>Robust conflict management.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> Published conflicts policy. Protocols for setting and managing budgets. Schemes of delegation. Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers. 	<p>Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts.</p> <p>Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.</p>	<p>SAB should consider making this a mandatory feature of any ‘outcomes-based’ governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	<p>Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.</p> <p>This will require a transparent approach to setting and managing budgets.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. <p>Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.</p>	<p>The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers.</p> <p>At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions.</p> <p>It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems.</p> <p>This aim must be supported by transparent processes for setting appropriate budgets.</p> <p>Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff.</p> <p>Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>
2c	<p>Explain policy on employer and member engagement and representation in governance.</p> <p>At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.</p>	<p>Most administering authorities have non-administering authority employer and scheme member representatives.</p> <p>Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations).</p> <p>In some cases, scheme member representatives have voting rights.</p> <p>»</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		<p>Many survey respondents support greater encouragement to include scheme member reps on s101 committees.</p> <p>However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.</p>	
2d	<p>Regular independent review of governance to assess effectiveness of administering authority’s governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an ‘outcomes-based’ model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.</p> <p>Guidance should not prescribe the approach but could set out acceptable methods which may include:</p> <ul style="list-style-type: none"> i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process. 	<p>It is important that any ‘outcomes-based’ approach is policed.</p> <p>Self-assessment is insufficient. Independent review is required for a more objective assessment.</p> <p>We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.</p>	<p>SAB should consider making this a mandatory feature of any ‘outcomes-based’ governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
3	<p>Enhanced training requirements for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.</p>	<p>s151s: Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts.</p> <p>s101 committees: Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those for s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.</p>	<ol style="list-style-type: none"> i. CIPFA to develop a CPD module for s151 practitioners in the LGPS. ii. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	<p>Update relevant guidance and provide better sign-posting.</p> <p>It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations.</p> <p>As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)</p>	<p>The main guidance relevant to governance includes:</p> <ol style="list-style-type: none"> i. CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and ii. CLG's statutory guidance on governance of governance compliance statements (2008). <p>Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling.</p> <p>Both must be updated.</p>	<ol style="list-style-type: none"> i. CIPFA to review and update guidance for s151s in respect of LGPS governance. ii. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration. iii. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. iv. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	Separate s151 for pension fund.	<ul style="list-style-type: none"> • A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	Compulsory benchmarking.	<ul style="list-style-type: none"> • Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	Legal separation of pension fund accounts.	<ul style="list-style-type: none"> • Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts from administering authority/council.
4	Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.	<ul style="list-style-type: none"> • Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	Removing s151 from decisions around admin budgeting due to conflicts.	<ul style="list-style-type: none"> • s151 has statutory responsibility.
6	Merger of funds to facilitate different governance models.	<ul style="list-style-type: none"> • Weakened link to local democratic accountability. • Outside of the scope of the project.

Table 4: Suggested follow up work beyond the scope of this report

	Suggested follow up work	Why
1	SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.	<ul style="list-style-type: none"> • Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	CIPFA and MHCLG to update existing guidance.	<ul style="list-style-type: none"> • Existing guidance is out of date.
3	Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).	<ul style="list-style-type: none"> • Statutory responsibilities take precedence. • Currently unclear.
4	SAB to consider a 'Good Administration' review.	<ul style="list-style-type: none"> • Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	SAB to consider a review of the role of Pension Boards in LGPS.	<ul style="list-style-type: none"> • Very mixed reports on the role and success in working with Pension Boards in the LGPS.



Table 5: 'Outcomes-based' model – concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	Robust conflict management.	<ul style="list-style-type: none"> • Conflicts policy. • Scheme of delegation or decision matrix setting out who makes what decisions. • Transparent process for approving budgets. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.	<ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. • Process for setting administration budget. • Policies in respect of recruitment and market supplements to attract and retain staff.
3	Explain policy on employer and member engagement and representation in governance.	<ul style="list-style-type: none"> • Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. • Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. • Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	Regular independent assessment of governance arrangements.	<p>State method e.g.</p> <ul style="list-style-type: none"> • Internal or external audit assessment; or • Scrutiny by Local Pension Board; or • External expert / consultant; or • Peer review process. <p>Describe scope and approach e.g.</p> <ul style="list-style-type: none"> • Reviewing policies, meeting minutes. • Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey

The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.



The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.



Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 – Greater ring fencing of the LGPS within existing structures: Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body – an alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).



Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid through the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.



Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.



Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Appendix B

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator



PENSIONS COMMITTEE

17 SEPTEMBER 2019

Subject Heading:

**INVESTMENT STRATEGY UPDATE –
ALLOCATION TO MULTI ASSET
CREDIT**

SLT Lead:

JANE WEST

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569

Policy context:

Debbie.ford@onesource.co.uk s
In line with Pension Fund’s Investment
Strategy dated November 2017

Financial summary:

Asset allocation of 5% represents
c£38m

Exempt Information - In accordance with Schedule 12A of the Local Government Act 1972 paragraph 3, information contained within Appendix A of this report is exempt on the grounds of commercial confidentiality as they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

The subject matter of this report deals with the following Council Objectives

- | | |
|-------------------------------|-----|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

SUMMARY

In line with progression of the Investment Strategy this report contains a paper produced by the Fund’s Investment Advisor (Appendix A – EXEMPT) to consider the implementation of the allocation to a multi-asset credit (MAC) product.

RECOMMENDATIONS

The Committee consider and agree the recommendations as set out in Hymans report (**APPENDIX A – EXEMPT**)

REPORT DETAIL

Background

1. The Committee has approved a long-term investment strategy following a review of the Fund's investment strategy in 2017. The long-term investment strategy is intended to support the Fund's required investment return target, whilst adding diversification through investment in alternative real estate and credit asset classes.
2. It was expected that the long-term investment strategy will be implemented over the course of 2018/19.
3. During 2018/19 the development of the investment statement progressed with the appointments made in respect of the Private Debt, Infrastructure and Global Property mandates. The next phase in meeting the targets set out in the long term investment strategy is to focus on Bonds.
4. As part of the Bonds Allocation it was envisaged that an allocation to a MAC product be considered.
5. The attached paper (Appendix A- EXEMPT)) has been produced by the Fund's Investment Advisor (Hymans) and includes recommendations incorporating an allocation to a MAC fund and the rationale of the route being taken to implement this.

IMPLICATIONS AND RISKS

Financial implications and risks:

Based on fund valuations as at 30 June 2019 an initial 5% allocation to the MAC Fund as suggested within the attached appendix will be in the region of c£38m. This will be funded through the current Bond Manager.

Fund Manager Charges are set out in the attached report.

There will also be costs incurred by Hymans for the advisory fees covering their advice and assistance in the implementation of the MAC product.

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSION COMMITTEE

17th September 2019

Subject Heading:

**LOCAL PENSION BOARD ANNUAL
REPORT- YEAR ENDED 31 MARCH
2019**

SLT Lead:

Sarah Bryant

Report Author and contact details:

**Victoria Freeman, Democratic Services
Victoria.Freeman@havering.gov.uk**

**he subject matter of this report deals with the following Council
Objectives**

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

[X]
[X]
[X]
[X]

SUMMARY

This report includes the Local Pension Board Annual Report 2018/19.

RECOMMENDATIONS

1. The committee to note the 2018-2019 Local Pension Board Annual Report.
2. The committee agree the Local Pension Board Annual Report will be published electronically.

REPORT DETAIL

Background

1. The Local Pension Board Annual report 2018/19 has been produced in line with the guidance issued by the Scheme Advisory Board section 8.6.
2. The report details activities for the past year and focusses on the planning and development of a robust action plan for the board with relevant training and development for the coming/future year.

IMPLICATIONS AND RISKS

Financial implications and risks:

None.

Legal implications and risks:

There are no apparent legal implications in noting the Report of the Pension Board.

Human Resources implications and risks:

None.

Equalities implications and risks:

None.

LONDON BOROUGH OF HAVERING
LOCAL PENSION BOARD

ANNUAL REPORT

2018/19



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Chairman's opening remarks.

It is my pleasure, as the Chairman of Havering Local Pension Board, to introduce the Board's 2018/19 Annual Report. The Board's task is to assist the council by making sure it is administering the Local Government Pension Scheme (LGPS) effectively and efficiently and is compliant with the law.

The Board set a two year work plan to tackle the areas deemed as most important to the administration of the fund and has worked hard during the year to deliver the objectives of the work plan. More detail on the work plan and the work completed can be found in the body of this report.

The Board met formally five times from April 2018 to March 2019 to discharge its duties. Board members completed online training and attended training and pension workshops during this period to enhance their knowledge in preparation for specific topics and spent time reviewing documents in preparation for board meetings. I have provided details of the training completed in Appendix 1.

I would like to thank officers for their hard work and support in researching and preparing information for the discussions at pension board meetings and the on-going support and guidance for the board.

The pension environment is continually changing and the Board endeavours to keep abreast of these changes and is working hard to support and assist the council's pension administration in maintaining the high standards in the administration of the Fund.

The Board continues to develop its knowledge and skills and is actively working through the items on the work plan.

Mark Holder
Chair of the Local Pensions Board

Introduction

1. Local Pension Boards are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees.
2. The role of each Board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.
3. Pension Boards need to have an equal number of employer and member representatives. They may also have other members, such as independent experts. All Pension Board members have a duty to act in accordance with scheme regulations and other governing documents.
4. Scheme regulations (or scheme-specific guidance) may provide further detail on the scope of the Pension Board and how it should operate, for example how many Pension Board members need to attend a meeting to be quorate and how often it should meet.
5. This Annual Report has been established to ensure Pensions Committee are aware of work undertaken during the year and the work planned for the future.

Role of the Local Pension Board

1. The role of the Local Pension Board, as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to: -
 - Assist the London Borough of Havering Administering Authority as Scheme Manager:-
 - To secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
 - To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
 - In such other matters as the LGPS regulations may specify;
 - Secure the effective and efficient governance and administration of the LGPS for the London Borough of Havering Pension Fund;
 - Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
2. The Pension Board will ensure it effectively and efficiently complies with the code of practice of the governance and administration of public service pension schemes issued by the Pension Regulator;
3. The Pension Board will also help ensure that the London Borough of Havering pension Fund is managed and administered effectively and complies with the

code of practice on governance and administration of public service pensions schemes issued by the Pension Regulator;

4. The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively;
5. In support of its core functions the Board may make a request for information to the Pensions Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing;
6. In support of its core functions the Board may make recommendations to the Pensions Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Membership of the Board

The Board consists of 4 voting members, two representing employers and two representing scheme members.

Board members were appointed for a fixed term of 4 years, which could be extended for further periods subject to re-nomination.

Substitute members are not permitted.

Each Board member should endeavour to attend all Board meetings during the year and are required to attend at least 4 meetings each year, one of which must be the Annual Meeting.

In the event a Board member failed to attend three consecutive meetings, that individual would automatically be disqualified, unless failure was due to some reason approved by the Board before the date of the third consecutive meeting.

David Holmes and Virpi Raivio were appointed as Employer representatives and Mark Holder (Chairman) and Anne Giles as Scheme Member representatives.

Denise Broom replaced Virpi Raivio as Employer representative in December 2018.

Board Meetings

The Board met on five occasions up to the end of the financial year.

Meetings took place on 24 April 2018, 18 June 2018 (Annual Meeting), 21 August 2018, 2 October 2018 and 18 December 2018.

Matters discussed by the Board

The following matters have been discussed by the Board:

- Pension training needs
- Tendering process for fund managers
- Pooled investments (London CIV)
- Review of work plan
- Fair Deal and TUPE Transfer
- Pension regulator and scheme advisory board compliance checklist
- Administration key performance indicators
- Review of the Pension fund risk register
- Support for the board
- Pensions administration service changes
- Liability insurance
- Details of the Board's budget
- Pensions Committee meeting updates
- New arrangements with Local Pensions Partnership (LPP) to provide the Pensions Administration function for LBH
- Performance of the Pensions Administration Service

There have been no conflicts of interest involving any of the work undertaken by the board or during any agenda items. Minutes of the meetings can be found at www.havering.gov.uk and by following Council and Democracy \ Councillors, senior staff and decision making \ Committees \ Committee details

Training

The board members are committed to the legal requirement to acquire the appropriate knowledge and skills and to demonstrate and evidence these legal requirements. To do this the Committee and the Board jointly adopted the CIPFA Knowledge and Skills Framework (KSF) in 2015, it has adopted a register that shows that the training and development being undertaken during the year. The register can be found in Appendix 1.

To summarise:

Members have attended an LGPS Board Seminar that was delivered by the Pensions and Lifetime Savings Association.

Individuals have completed on-line learning from the Pensions Regulator as well as other self-directed learning which includes reading and e-learning.

All members have undertaken a training needs analysis.

Further training events will be organised once the training requirements of the pension committee have been assessed due to changes from the recent election.

Financial Position

Local Government Pension Scheme Governance Regulations 2015 section 106(9) states that the expenses of a Local Pension Board (LPB) are to be regarded as part of the costs of administration of the fund held by the administering authority.

Guidance issued in January 2015 suggested that it is appropriate for the LPB to be given adequate resources to fulfil its task.

Terms of reference adopted by Governance Committee on the 11 March 2015 and then the Council meeting on the 25 March 2015 also states that the LPB is to be provided with adequate resources to fulfil its role.

The estimated budget agreed by the Administering Authority's Statutory Section 151 officer and costs incurred for 2017/18 are shown in the following table:

Description	2015/16 Actual £	2016/17 Actual £	2017/18 Actual £	2018/19 Estimate £	2018/19 Actual £
Members Allowance & Travelling	1,346	1,189	1,569	3,000	1,673
Support Services – Internal Recharge	880	920	820	8,000	1,075
Printing, Stationary & Office Expenses	3,348	0	0	3,400	0
Communication & Computing	0	0	0	500	0
Professional Advice	0	0	0	10,000	0
*Training & Development	6,038	5,550	2,650	10,000	1,430
Total	11,612	7,659	5,039	34,900	4,178

*Training costs of £10,000 is to be shared with the Pensions Committee to keep officer time and training costs to a minimum. The amounts shown above represent the LPB share of the costs.

Budgets have been set to cover a four year period to reflect the period of term that the LPB appointees will serve. 2018/2019 is the fourth operational year of the LPB. The LPB is accountable to the Administering Authority and prior approval will need to be sought from the Section 151 officer to amend budgets. The cost for the LPB is met from the Havering Pension Fund and approved by the Administering Authority's Statutory Section 151 Officer.

The Future

A new 18/24 month work plan for 2019/20 and 2020/21 was discussed and agreed at the AGM on the 5th June 2019.

The areas listed below will be investigated over the next 18/24 months.

1. To ensure that the pension regulator and scheme advisory board compliance checklist has been completed and is reviewed regularly.
2. To ensure that a process is in place to make any items that have been identified as being non-compliant or partially compliant from the pension regulator and scheme advisory board compliance checklist are made fully compliant within agreed and acceptable timescales. Any items that cannot be made fully compliant are added to the risk register with a clear explanation as to the reasons why.
3. To request that the scheme manager provide evidence that the Administering Authority is meeting the pension regulators requirements in any areas that we require further assurance.
4. To regularly review the key performance indicators and statistical information relating to the administration of the scheme and ensure an action plan is in place for indicators that are not meeting the agreed target.
5. To ensure that investment managers disclose all their fees and charges and are progressing towards the local government pension scheme code of transparency.
6. To monitor progress of service transition of Pensions Administration to Local Pensions Partnership (LPP) and ensure that any changes to scheme administration are well planned and documented.
7. To ensure that the scheme manager fully plans for any new legislation and we are compliant with all aspects of any new legislation.
8. Report regularly to the pensions committee on the work of the pension board and ensure that there is good communication between the two boards.

The Work Plan will be a live document and subject to change as necessary with a formal review at least every two years.

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
29 June 2015	Hymans – Fund Actuary delivered training: Why we are here Roles & Responsibilities Knowledge & Skills Brief overview of LGPS	Hyman’s Office – One London Wall	KSF 1	£3,500 (shared equally between LBH and Redbridge)	Justin Barrett – Employer rep Mark Holder - Member rep Marshajane Thompson – Member rep David Holmes – Employer Rep
12 Aug 2015	Officers - Local Pension Board Induction covered: <ul style="list-style-type: none"> ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements 	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4,5 & 6	Officer Time	Mark Holder - Member rep Justin Barrett – Employer rep (chair)
6 January 2016	Hymans – Fund’s Actuary delivered TUPE Transfer Training, covered: <ul style="list-style-type: none"> • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations 	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	Mark Holder - Member rep Justin Barrett – Employer rep (chair)

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
25 April 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	Mark Holder – Member Rep
5 June 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£900.00 + VAT	Marshajane Thompson – Member Rep Justin Barrett – Employer Rep (chair)
7 October 2016	Eversheds – LGPS: New Challenges, covered: <ul style="list-style-type: none"> • Update on LGPS Pooling • New Fair Deal update • 2016 Valuations • Legal, Investment & Brexit update 	Eversheds, one Wood Street, London	KSF 1 & 6	£100?	David Holmes – Employer Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
28 November 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	David Holmes – Employer Rep
3 December 2016	Hymans - Joint training with Pensions Board - Valuation 2016 Results covered: <ul style="list-style-type: none"> • 2016 Valuation framework • Valuing liabilities • Actuarial assumptions • 2016 results • What changed since 2013 	Havering Town Hall	KSF 6	£2,000	Mark Holder – Member rep David Holmes – Employer Rep
23 January 2017	Hymans - Joint Training with Pensions Board – Investment Strategy Training covered; <ul style="list-style-type: none"> • New investment Regulation 2016 • Overview of ISS/DCLG Guidance 	Havering Town Hall	KSF 5	£2,100	Justin Barrett – Employer Rep (chair) Mark Holder – Member Rep David Holmes – Employer Rep Anne Giles – Member Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	<ul style="list-style-type: none"> • What changed between SIP/ISS • Asset allocation rebalancing • Investment strategy evolution • Investment objectives • Overview of UK Stewardship code • Credit Strategies 				
Page 98 February 2017	London CIV Stewardship Seminar	Guildhall, City of London	KSF1	Free	Mark Holder – Member Rep
1 March 2017	LCIV Annual conference including fund manager sessions		KSF4/5	Free	Mark Holder – Member Rep
28 June 2017	CIPFA & Barnett Waddingham – Local Pension Boards Two years on	Cheapside House, 138 Cheapside, London EC2V		£175	David Holmes - Employer Rep Mark Holder – Member Rep Anne Giles – Member Rep
3 November 2017	Association of Colleges	Webinar		FREE	David Holmes – Employer Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
6 November 2017	CIPFA & Barnett Waddingham – LPB Autumn Seminar covers: Latest LGPS updates Reporting Breaches of Law Investment Regulations & related key policies	Cheapside House, 138 Cheapside, London EC2V		£125	Ann Giles – Member Rep Virpi Raivio- Employer Rep
21 November 2017	Hymans – Actuary- Admissions and TUPE policies	Havering Town Hall	KSF 6	Part of Actuarial contract	Mark Holder – Member Rep Anne Giles – Member Rep Virpi Raivio – Employer Rep
22 December 2017	Officers - Local Pension Board Induction covered: <ul style="list-style-type: none"> ○ Brief overview of the Havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation LPB reporting requirements	Central Library	KSF 1,2,4,5 & 6	Officer Time	Ann Giles (TBC) Virpi Raivio (TBC)
26 February 2018	CIPFA and Barnett Waddingham LGPS Local Pension Board Members Spring Seminar	Cheapside House, 138 Cheapside, London EC2V 6BW	KSF 1,2a	£125	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
27 June 2018	CIPFA and Barnett Waddingham – Local Pension Boards three years on	Cheapside House, 138 Cheapside, London EC2V 6BW		£175 x3	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep
10 th October 2018	LGPS Governance Training Fundamentals - Day 1	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.		£260	Mark Holder
30 th October 2018	LGPS Governance Training Fundamentals - Day 2	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.		£260	Mark Holder
4 th December 2018	LGPS Governance Training Fundamentals - Day 3	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.		£260	Mark Holder
10 th December 2018	Local Pension Board Induction Training	2 nd Floor, Romford Library		0	Denise Broom

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
26th June 2019	CIPFA and Barnet Waddington LGPS Local Pension Board Annual Event	2nd Floor 2 London Wall Place 123 London Wall London EC2Y 5AU		£185 plus VAT	Anne Giles – booked in April 19
25th September 2019	Introduction to the LGPS – Circulated email to Pensions by Committee and LPB Members 230419	Northern Trust Offices, Canary Wharf		£345 plus VAT	Denise Broom – booked in March 19
3rd October 2019	Fundamentals Training (3 Days) – Circulated by email to Pensions Committee and LPB Members 230419	LGA Offices, Westminster		£780 plus VAT	
6th November 2019					
18th December 2019					
Various	Pensions Regulator Public Service Toolkit:	online	KSF 1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Anne Giles - Member Rep
	<ul style="list-style-type: none"> Conflicts of interest 	online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	<ul style="list-style-type: none"> Managing Risks and internal controls 	online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	<ul style="list-style-type: none"> Maintaining accurate member data 	online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	<ul style="list-style-type: none"> Maintaining member contributions 	online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles
	<ul style="list-style-type: none"> Providing information to members and others 	online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep
	<ul style="list-style-type: none"> Resolving internal disputes 	online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep
	<ul style="list-style-type: none"> Reporting Breaches of Law 	online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep

PENSIONS COMMITTEE

Subject Heading:	The Pensions Regulator In Depth Engagement Update
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 Caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013 and Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014
Financial summary:	There is no financial impact of this report

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

A report to the Pensions Committee in March informed that the Pensions Regulator (tPR) were conducting an in depth review with Havering as part of a nationwide review of the governance and administration of the Local Government Pension Scheme (LGPS). The review has now concluded and this report outlines the findings of the review along with the actions Havering Pension Fund Administration are taking. The tPR found numerous areas of good practice in the Havering Scheme and gave it a very positive review. On completion of their other engagements the tPR aim to publish a report in the autumn covering key learnings, good practice and suggest themes for Scheme Managers to focus on to help drive governance and administration standards.

RECOMMENDATIONS

It is recommended that the Committee note the conclusion of the review by tPR and the resulting actions.

REPORT DETAIL

1. tPR carry out an annual Governance and Administration Survey amongst all public service pension schemes and recent results showed that improvements in the LGPS had stalled. The LGPS is made up of approximately 100 individual funds and a 10% sample had been selected for review which included the London Borough of Havering.
2. The purpose of tPR's review is to understand the challenges that schemes are facing, to monitor how schemes are performing and suggest improvements and relevant actions.
3. Each meeting was attended by the Scheme Manager, Pensions Manager (Pensions & Treasury), and Pensions Projects and Contracts Manager to ensure relevant expertise was available to cover each topic and to give a consistent approach.

4. The relevant information including policies and procedures were supplied to tPR ahead of each meeting, together with links to documentation held on the Havering.Gov or Pension websites. The documents were either Pension Fund specific, corporate, or supplied by LPP, our third party pension administrators.
5. Across a series of meetings the following areas were covered:
 - Administrator Risk
 - Record Keeping
 - Member Communications
 - Internal Controls
 - Internal Disputes Resolution Procedure
 - Maintaining Contributions
 - Employer Non-Compliance
 - Affordability & Funding
 - Pension Board Members Knowledge and Understanding
 - Relationships between the Scheme Manager and the Pension Board
 - Conflicts of Interest
 - Fraud/Misappropriation of assets
 - Scams: and
 - Cyber Security.
6. tPR provided an observations letter after each meeting, summarising the discussions application of policies and processes culminating in some suggested actions for improvement.
7. Officers discussed and reviewed the actions at each stage and planned or completed a review of changes to procedures or policies to accommodate the suggestions. Below is a summary of tPR recommendations and Havering actions.

tPR Recommendation	LBH Action
Ensure procedures in place to check for compliance with disclosure timeframes	Monthly monitoring reports have been adapted to check SLA and disclosure timeframes
Align various risk registers and include timescales and owners	The Pension Fund Risk Register has been updated
Set out decision making and escalation points and develop a decision log or similar	Review to be planned and implemented
Develop a breach log and a regular monitoring mechanism.	Included as a standing item on the LPP client meeting agenda
Monitor due diligence activities carried out by LPP for scheme transfers	Included as a standing item on the LPP client meeting agenda
Promote the use of the online member portal	We do promote this whenever possible but will introduce a communications campaign to highlight its benefits

8. This was a very positive review for Havering and in the final letter the tPR stated:

“We would like to thank you and your team for engaging with us in such an open and transparent way over the last 6 months and the time you have committed to this engagement. We consider that there has been mutual benefit from our close proactive working relationship with you over the period. In particular we have learnt a considerable amount about the operational challenges faced by you and other scheme managers in administering a LGPS fund and the solutions and processes adopted. We were glad to hear that you have found our feedback useful and that you feel the time was well spent engaging more closely with TPR.

We have provided detailed feedback on the specific items we have covered and as we explained in our last meeting, we do not rank funds that we have engaged with. However, it would be only fair to say that we are impressed by the level of efficiency, effectiveness and professionalism you have demonstrated, particularly considering the tiny size of the pensions team you have; LGPS Havering has numerous examples of good practice. We have noted your kind offer of sharing your experience and practices with other schemes as and when needed”.

9. At the time of concluding the Havering review, tPR’s engagement with other Funds was ongoing. They aim to publish a report once all engagements are finalised in the autumn. This will cover key learnings, identify good practices and suggest themes for Fund Managers to focus on to help drive governance and administration standards.
10. The tPR report will not name individual funds without that Fund’s prior agreement. Havering have not been approached regarding being named.
11. This report will also be shared with the Local Pensions Board and we will work with them to ensure that the recommendations and learning taken from the review are used to identify any areas where Havering can make further improvements. This is in line with the Pension Regulators Code of Practice 14 work that the Board are already undertaking.

IMPLICATIONS AND RISKS

Financial implications and risks:

There appear to be no financial implications or risks arising from this report

Legal implications and risks:

There are no apparent legal implications arising from consideration of this Report.

Human Resources implications and risks:

There appear to be no HR implications or risks arising that impact on the Council's workforce. However, there will be resources required from the Shared Service to implement the recommendations from tPR which will need to be drawn from existing resources.

Equalities and Social Inclusion Implications and Risks

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

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PENSIONS COMMITTEE

17 September 2019

Subject Heading: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2019

CLT Lead: Jane West

Report Author and contact details: *Debbie Ford*
Pension Fund Manager (Finance)
01708432569
Debbie.ford@onesource.co.uk

Policy context: Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.

Financial summary: This report comments upon the performance of the Fund for the period ended 30 June 2019

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments, an overview of the Fund Manager Monitoring and an overview of any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending 30 June 2019.

This report is being presented in order that:

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans.

Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation.

The manager attending the meeting will be from:

UBS (the Funds UK Property Manager)

Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers

RECOMMENDATIONS

That the Committee:

- 1) Consider Hymans Market Background and Outlook Report (Appendix A)
- 2) Consider Hymans Strategic Overview Report (Appendix B).
- 3) Consider Hymans Performance Report and Views (Appendix C, D and E Exempt)
- 4) Receive presentations from the Fund's Property manager UBS (Appendix F – Exempt)
- 5) Consider the quarterly reports sent electronically, provided by each investment manager.
- 6) Note the analysis of the cash balances

REPORT DETAIL

1. As reported in the quarterly monitoring report presented at the 24 July 2019 meeting we undertook a review of the contents of the quarterly performance report. We acknowledged that there is an element of duplication within our report and our Funds Investment Advisor report from Hymans. Some of the elements from Hymans report which were deemed non confidential can now be seen in a separate appendices (**Appendix A and B refers**). Elements covering views on Fund manager performance will remain as exempt and will be shown in **Appendices C, D and E**).
2. When appropriate more topical LPGS news that may affect the Pension Fund will now be included.
3. We welcome any feedback as we continue to develop the new reporting format

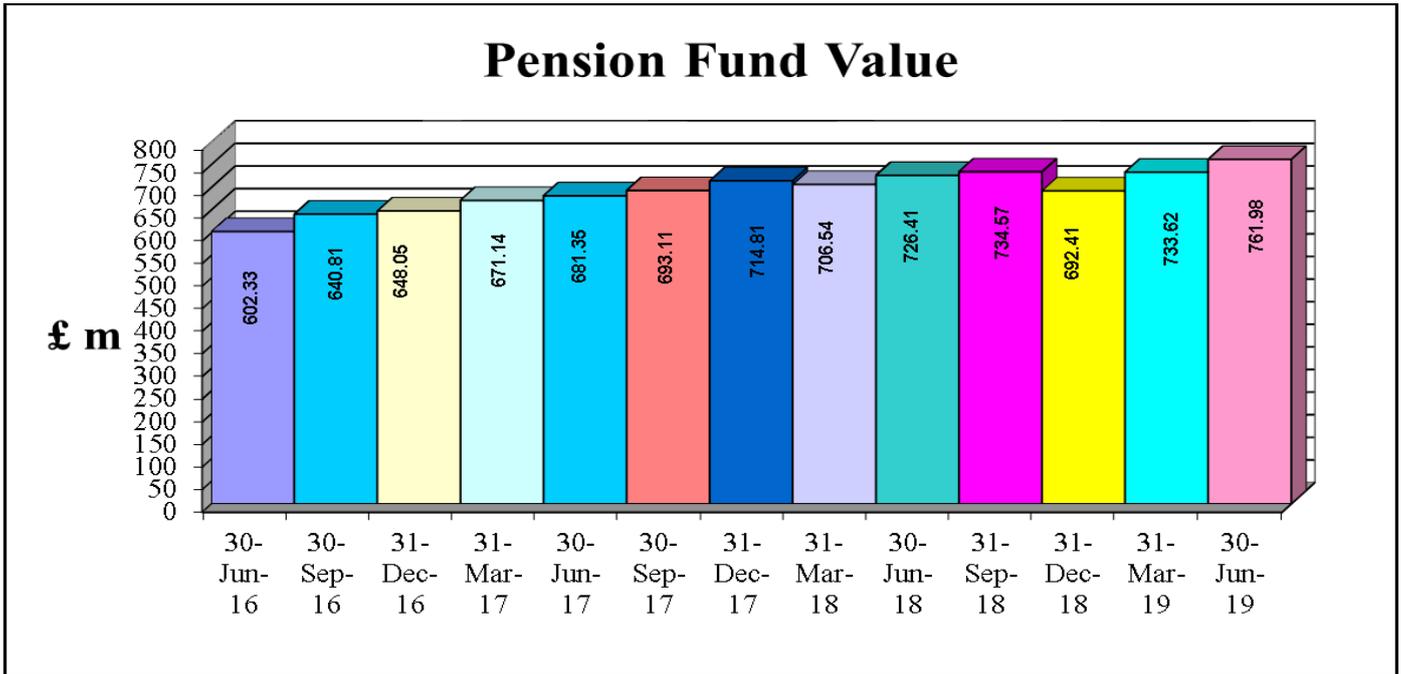
4. BACKGROUND

- a. The Committee adopted an Investment Strategy Statement (ISS) in November 2017.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities
- c. The Fund's assets are monitored quarterly to ensure that the long term objective of the ISS is being delivered.
- d. We measure returns against tactical and strategic benchmarks:
- e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.
- f. **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the Fund is meeting its longer term objective of reducing the Fund's deficit.

5. PERFORMANCE

- a. Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2019 was **£761.98m** this valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor as it excludes accrued income. This compares with a Fund value of £733.62m at the 31 March 2019; an **increase of £28.36m**. Movement in the Fund value is attributable to an increase in assets of £26.79m and an increase in cash of £1.57m. Internally managed cash level stands at **£15.77m** of which an analysis follows in this report.

Chart 1 – Pension Fund Values



- b. The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

Table 1: Quarterly Performance

	Quarter to 30.06.19	12 Months to 30.06.19	3 Years to 30.06.19	5 years to 30.06.19
	%	%	%	%
Fund	3.7	5.1	8.0	7.7
Benchmark	3.1	6.9	6.4	7.0
*Difference in return	0.6	-1.7	1.5	0.7

Source: Hymans Robertson

Totals may not sum due to geometric basis of calculation and rounding

- c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees) is shown as follows:

Table 2: Annual Performance

	Quarter to 30.06.19	12 Months to 30.06.19	3 Years to 30.06.19	5 years to 30.06.19
	%	%	%	%
Fund	3.7	5.1	8.0	7.7
Benchmark	2.3	10.8	7.6	11.0
*Difference in return	1.3	-5.1	0.4	-3.0

Source: Hymans Robertson

*Totals may not sum due to geometric basis of calculation and rounding.

- d. Further detail on the Fund's investment performance is detailed in **Appendix C (Exempt)** in the performance report which will be covered by the Investment Adviser (Hymans).

6. CASH POSITION

- a. An analysis of the internally managed cash balance of **£15.77m** follows:

Table 3: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2017/18</u> <u>31 Mar</u> <u>18</u>	<u>2018/19</u> <u>31 Mar</u> <u>19</u> <u>Revised</u>	<u>2019/120</u> <u>30 Jun</u> <u>19</u>
	£000's	£000's	£000's
Balance B/F	-12,770	-17,658	-13,698
Benefits Paid	36,532	37,954	9,921
Management costs	1,221	1,490	114
Net Transfer Values	1,108	1,543	-515
Employee/Employer Contributions	-42,851	-44,804	-12,882
Cash from/to Managers/Other Adj.	-785	7925	1,322
Internal Interest	-113	-148	-32
Movement in Year	-4,888	3,960	-2,072
Balance C/F	-17,658	-13,698	-15,770

- b. Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

- c. The cash management policy incorporates a threshold for the maximum amount of cash that the fund should hold but introduced a discretion that allows the Statutory S151 officer to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy implementation (there is a possibility that we will use this cash to fund the close ended funds and/or the College mergers).
- d. The cash management policy has been reviewed and the proposed changes are subject to a separate item on this agenda

7. REPORTING ARRANGEMENTS

- a. In line with the reporting cycle, the Committee will see one Fund Manager at each Committee meeting unless there are performance concerns for individual managers. Individual Fund Manager Reviews are attached in Hymans performance report at **Appendix C (exempt)**
- b. The full version of all the fund manager's quarterly report are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each Investment Manager, detailing the voting history of the Investment Managers is also included in the Manager's Quarterly Report.
- c. The Fund Manager attending this meeting is **UBS (the Funds UK Property Manager)** and their presentation can be found at **Appendix F (exempt)**

8. FUND UPDATES:

8.1 Changes made in previous quarter and forthcoming changes

- a. The Fund has continued to fund capital draw down requests c.£2.7m from Stafford Capital during the last quarter. During July and August further requests from Stafford were made in the region of £0.8m and £2.3m invested with Churchill.
- b. The Fund appointed Northern Trust for Custodial and performance measurement services and a number of legal and on-boarding documents are in the process of being completed in order that the contract can commence 1 October 2019.
- c. The Fund appointed Russell investments to implement a currency hedge for the Fund. A number of legal and on-boarding documents are in the process of being completed in order that the contract can

commence once the custodian contract is in place.as close as possible to 1 October 2019.

8.2 London Collective Investment Vehicle (LCIV) - LCIV is the mandatory asset pool for the Fund and updates will be covered here as follows:

8.2.1 LCIV meetings

- a. The LCIV Q2 Investment forum was held on the 6th June with presentations from PIMCO - Global Bond manager, Ruffer and Ares who covered liquid loans.
- b. Officer quarterly review meetings are held with the LCIV to discuss the Funds priorities and investment strategy plans and to receive the latest London CIV updates and includes current and expected sub fund launch dates and discussions concerns on the quarterly investment reports,. Officers met with LCIV on the 20 August 2019 and some of the content of that meeting is covered in this update.
- c. The LCIV Q3 investment forum is scheduled to take place on 23 September. The day will comprise of an introductory presentation from J.P. Morgan. This presentation will be followed by a panel discussion, giving an opportunity to hear from both Baillie Gifford (LCIV Diversified Growth Fund) and Newton (LCIV Real Return Fund) in an open discussion on their approaches to some key topics.
- d. General Shareholder meeting (AGM) 18 July 2019). This meeting required representation from all 32 boroughs and this was attended by Councillor Martin Goode. Some of the contents covered at that meeting has been covered in this update

8.2.2 Pension Cost Recharge Agreement and Pension Guarantee

- a. LCIV are seeking authorisation of the above agreements. There have been delays in resolving this issue due to concerns of escalating costs as staff numbers grew.
- b. It was deemed by the Section 151 Officer that the Chief Executive Officer of the LCIV has set out sufficient checks and balances to ensure costs do not escalate. S151 consultation with other Society of London Treasurers (SLT) colleagues has also shown other London Authorities willingness to sign the agreements. These agreements have now been signed and sealed and sent to the LCIV.

8.2.3 Remuneration Policy Review

- a. LCIV Board commissioned a review of LCIV's Remuneration Policy earlier this year, including all options for the pension scheme. A sub-group of the Remuneration and Nominations Committee has overseen that work and the report was presented to the Board on the 8 July 2019 which sought feedback from the Shareholder Committee on its preferred option on 18 July 2019.
- b. The Board has decided to seek further soundings from the boroughs to inform its decision as to the way forward in respect of the pension scheme. A letter was sent out on the 13 August 2019 setting out options and this is covered in a separate report on this agenda.

8.2.4 Responsible Investment & Stewardship

- a. At the April Shareholder Committee LCIV discussed "next steps" to make their Responsible Investment policy a reality.
- b. When Mark Thompson joins as Chief Investment Officer on 2 September 2019 he will be leading LCIV's Responsible Investment work.
- c. The LCIV are also working on hosting an ESG focused event on 16 October 2019 which will provide an opportunity to discuss the Big Questions around our approach to pooling and Environmental, Social and Governance (ESG as part of that).
- d. Feedback was invited on ESG issues to inform the ongoing programme of activity and the September event. Hymans provided a number of comments and this was passed to LCIV as part of their feedback request.

8.2.5 Service level Agreements

- a. The LCIV is in the process of developing a Service Level Agreement with all the boroughs. Officers were sent a draft of this to which feedback was provided. LCIV will consider all the feedback and are planning on sending a revised draft out in due course.

8.2.6 Shareholder Agreement amendment

- a. LCIV proposed a change to its operating and business model so that it can evolve with the expectations of the pool and introduce flexibility to provide for future potential changes and choices. This change is dependent on all 32 boroughs signing the agreement. Currently there is one borough yet to sign but it is understood that legal opinion is being sought and hopefully this can be progressed after the September round of Committee meetings.

9. LGPS GENERAL UPDATES:

9.1 LGPS GOVERNANCE

- a. A 'Good Governance Report in the LGPS' was produced by Hymans in July at the request of the Scheme Advisory Board (SAB) The full report can be seen as a separate item on this agenda.

9.2 LGPS CONSULTATIONS

- a. A consultation was issued by the Minister of Housing, Communities and Local Government (MHCLG) in May 2019 "*LGPS - Changes to the Local Valuation Cycle and the Management of Employer Risk*", deadline was the 31 July 2019. This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales.
- b. It covered the following areas:
- Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
 - A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
 - Proposals for flexibility on exit payments
 - Proposals for further policy changes to exit credits
 - Proposals for policy changes to employers required to offer LGPS membership
- c. The London Borough of Havering's response to the consultation endorsed those comments raised by the Funds Actuaries Hymans Robertson LLP who submitted a response on the 2 July 2019 and also endorsed the submission as presented by The Society of London Treasurers (SLT). In summary of the above areas Havering supported the view:
- that fund valuations should **not move** from a 3 to a 4 year cycle.
 - Supported flexibility on being able to spread exit payments subject to meeting appropriate security arrangements
 - that exit credit should only apply after the change in regulations that were made from 14 May 2018.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund and employers in the Fund

Legal implications and risks:

None arising directly

The Committee has been constituted by the Council to perform the role of administering authority to manage the Newham LGPS Fund and as such has legal authority to make the decisions sought by the recommendations.

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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Appendix A: Market Background and Outlook

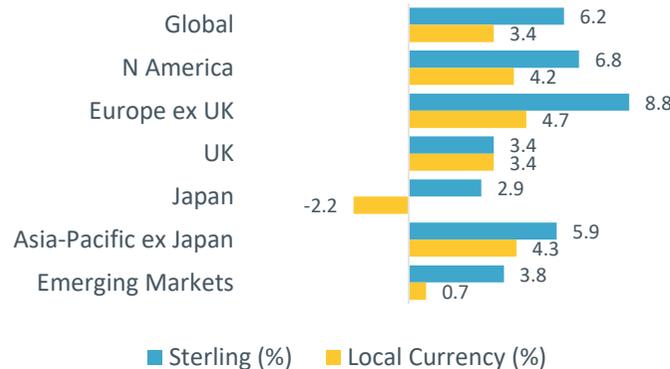
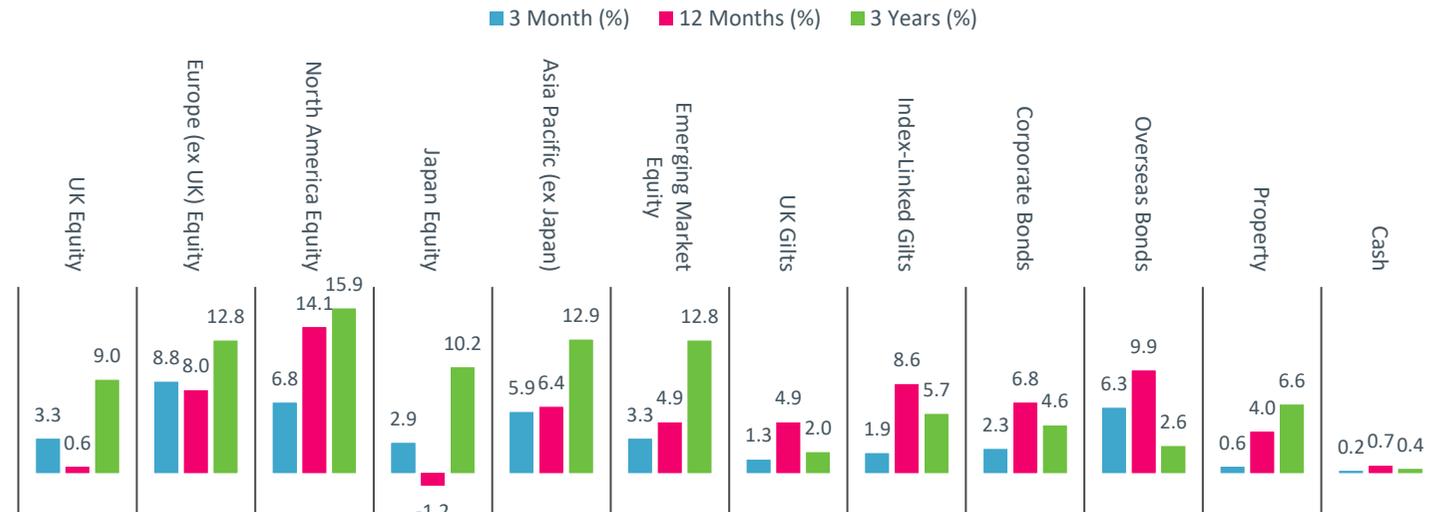
Market background for the quarter

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

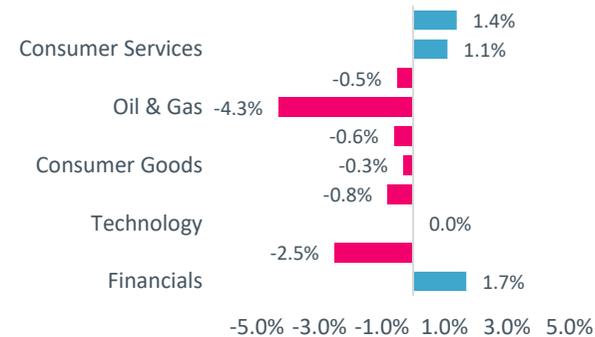
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

Historic returns for world markets



Global sector performance



Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

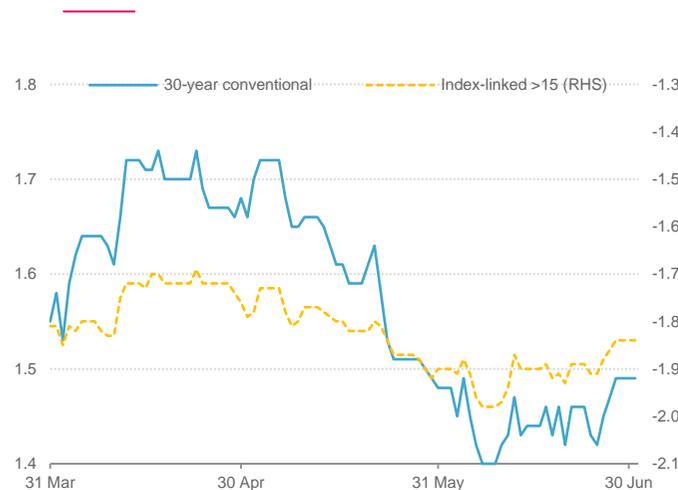
Annual CPI Inflation (% p.a.)



Commodity Prices



Gilt yields chart



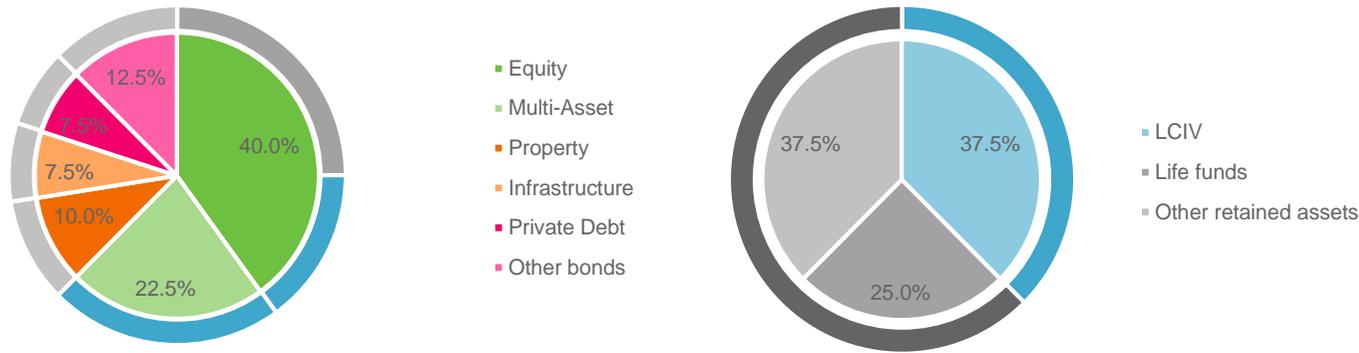
Sterling trend chart (% change)



Appendix B: Strategic Overview

Strategic overview

The Fund’s investment approach is implemented through the London Common Investment Vehicle (“LCIV”), and retained assets including life funds (with fee structures aligned with LCIV). The following charts summarise the approach agreed for the implementation of the Fund’s longer term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee:



The following table summarises the Fund’s longer term strategic target and expected implementation approach:

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford	15.0	LGIM	25.0		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10.0					UBS, CBRE	10.0
Infrastructure	7.5					JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds*	12.5					RLAM	12.5
Total	100.0	-	37.5	-	25.0	-	37.5

*The structure of the other bonds allocation is still to be finalised

The longer term strategy is in the process of being implemented. It is envisaged that the long term strategy will be largely implemented during 2019 although drawdown into the private debt and Stafford mandates may extend into 2020/21. The target allocation to LCIV and life funds totals 75% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically

Current investment implementation

Manager	Implementation	Previous Quarter	Cashflows	Current Quarter	Actual Proportion	Target Proportion	Difference
Equity		270.3	6.5	294.5	38.7%	35.0%	3.7%
LGIM Global Equity	LCIV aligned	54.7	0.0	55.6	7.3%	7.5%	-0.2%
LGIM Fundamental Equity	LCIV aligned	52.7	0.0	58.1	7.6%	7.5%	0.1%
LGIM Emerging Markets	LCIV aligned	24.8	6.5	32.2	4.2%	5.0%	-0.8%
Baillie Gifford Global Equity	LCIV	138.1	0.0	148.7	19.5%	15.0%	4.5%
Multi-Asset		216.9	-21.2	198.5	26.1%	27.5%	-1.4%
Ruffer Absolute Return	LCIV	94.7	0.0	96.2	12.6%	15.0%	-2.4%
Baillie Gifford DGF	LCIV	87.7	0.0	88.7	11.6%	12.5%	-0.9%
GMO Global Real Return	Retained	34.5	-21.2	13.7	1.8%	0.0%	1.8%
Real-Assets		94.0	14.8	111.1	14.6%	17.5%	-2.9%
UBS Property	Retained	43.5	0.0	43.9	5.8%	6.0%	-0.2%
JP Morgan Infrastructure	Retained	29.2	-1.5	28.2	3.7%	4.0%	-0.3%
CBRE Global Property	Retained	13.4	13.5	27.8	3.6%	4.0%	-0.4%
Stafford Global Infrastructure	Retained	7.8	2.8	11.3	1.5%	3.5%	-2.0%
Bonds and Cash		152.5	1.6	157.8	20.7%	20.0%	0.7%
RLAM Bonds	Retained	135.1	0.0	138.7	18.2%	12.5%	5.7%
Churchill Private Debt	Retained	3.1	0.0	3.1	0.4%	3.0%	-2.6%
Permira Private Debt	Retained	0.0	0.0	0.0	0.0%	4.5%	-4.5%
Cash	Retained	14.3	1.6	15.9	2.1%	0.0%	2.1%
Total		733.6	1.6	762.0	100.0%	100%	-

Source: StateStreet (WM); LGIM Global Equity and Fundamental Equity mandates were managed by SSGA prior to November 2017. Figures may not tally due to rounding.

The total value of the Fund's assets increased by c. £28m over the quarter to c. £762m as at 30 June 2019 as global equities continued their strong start to 2019.

The target proportions listed represent the current implementation of the Fund's longer term strategic allocation, following the addition of Real Assets and Private Debt. Allocations to these new asset classes are due to be funded from existing cash balances, and from Multi-Asset funds (Real Assets) and the Royal London bond mandate (Private Debt).

Over the quarter the Fund paid capital calls to Stafford, CBRE and Churchill. These were funded from redemptions of c. £21m from the GMO mandate.

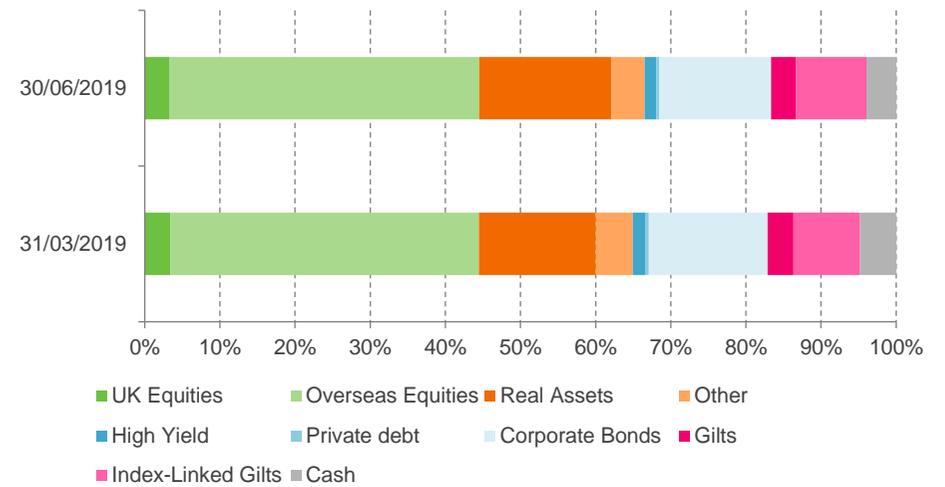
Underlying Asset Allocation

The chart illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the three multi-asset funds on a 'look through' basis.

The Fund's allocation to equities did not change materially over the quarter, and remained at c. 45% at 30 June 2019. The allocation to real assets increased over the quarter from c.15% to c.18% as the implementation of the Fund's longer term strategy progressed during the quarter.

Consideration is being given to further implementation of the longer-term strategy, with debt mandates under review.

Look through asset allocation as at 30 June 2019



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